

STATE OF CALIFORNIA

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Date: January 29, 1999

PAYROLL LETTER # 99-004
CIVIL SERVICE ONLY

To: All Agencies in the Uniform State Payroll System

From: Ralph Zentner, Chief
Personnel/Payroll Operations Bureau

Re: FRINGE BENEFIT/EMPLOYEE BUSINESS EXPENSE REPORTING
COMPLIANCE REVIEW

This Payroll Letter highlights key results of the 1998 Civil Service (CS) Fringe Benefit/Employee Business Expense (FB/EBE) Compliance Project. It also provides an update to the Internal Revenue Service (IRS) State and Local Government Employer Compliance Project.

FB/EBE COMPLIANCE OBJECTIVES

Agencies must satisfy the following objectives:

Report all taxable FB/EBEs as identified in the Payroll Procedures Manual Sections I 120 - 165.

Report all FB/EBEs based on constructive receipt. Taxable/reportable FB/EBEs must be reported by the 10th of the month following the month an employee receives the FB/EBE. For example, if a taxable benefit is received in June, it must be reported to the State Controller's Office by July 10th.

Report all FB/EBEs accurately.

1998 IMPROVEMENTS

CS agencies improved compliance with Federal and State tax requirements as illustrated by the following:

Taxable FB/EBE wage reporting increased from \$30.9 million (1997) to \$60.1 million (1998).

The number of agencies reporting FB/EBEs increased; 80% of all agencies have reported FB/EBEs in 1998.

The number of benefits reported in 1998 versus 1997 increased; 88 agencies (40%) reported more FB/EBEs in 1998.

Document completion accuracy exceeded the State Controller's Office standards; statewide, the error rate was an excellent .0006.

Agency reporting via Payroll Input Process (PIP) rose for the third consecutive year for Overtime Meal Money and Uniform Allowance. Overtime Meal Money reported via PIP was \$245,290 (\$93,653 in 1997); Uniform Allowance was \$45,074,000 (\$18,286,000 in 1997).

PROBLEM AREAS

Based on reporting demographics maintained for each agency, two major compliance problems exists:

Agencies are not reporting all taxable FB/EBEs provided their employees.

Agencies are not reporting taxable FB/EBEs timely. Agencies are "surge" reporting. Surge reporting is lumping multiple months' benefits into a single reporting period and/or failing to report benefits until calendar year end.

IRS STATE AND LOCAL GOVERNMENT TAX COMPLIANCE PROJECT

As previously announced in Payroll Letter #97-025, the IRS is conducting a State and Local Government Tax Compliance Project. This project was extended through the year 2002. Employer assessments are underway and tax audits will commence in the near future. Per the IRS, audit criteria includes comprehensive, timely and accurate FB/EBE reporting.

ANNUAL COMPLIANCE ACTIVITIES

Plans for the State Controller's Office 1999 FB/EBE Compliance Project are underway. A Payroll Letter outlining the start of the annual compliance project will be released this Spring. Meanwhile, agencies should review FB/EBE business practices and ensure that all FB/EBE compliance objectives are satisfied

CONTACTS

If you require additional information, use the following contact for assistance:

FB/EBE Reporting Requirements
OR
On-Site FB/EBE Consultation

Tax Support Section
Jim Fiack

(916) 322-8128
CALNET 492-8128

RZ: JF/TSS